

Asset Management

Charles Y. Davis

Asset Management Officer, Office of Insured Health
Care Facilities, HUD



Regulatory Agreement and Covenants

1. Non-Interference By Parent
2. Maintenance of Integrity of Collateral and Project
3. Reporting Requirements
4. Affiliate Transactions
5. Corporate Distribution of Assets
6. New Corporations, Subsidiaries, and Affiliations, Mergers
7. Financial Reports
8. Business Plan/Consultant's Report
9. Additional Indebtedness and Leasing

Mortgage Reserve Fund

- Hospital must fund a Mortgage Reserve Fund, held in trust for HUD
- Hospital must execute a MRF Agreement and Trust Agreement
 - ❖ Containing most current standard provisions
 - ❖ Giving HUD control and direct access to the monies under specified conditions

MRF Purposes

- To help hospitals through temporary financial crises and provide funds to prevent defaults
- To provide for costs of engaging various consultants as required by the Regulatory Agreement
- To provide additional security to HUD
 - ❖ 1 year of debt service to be funded within first 5 years of the mortgage
 - ❖ 2 years of debt service must be funded within first 10 years of the mortgage

MRF Investments

- MRF monies deposited should be invested in interest-bearing securities insured by an agency of the United States Government:
 - ❖ Obligations of the US government
 - ❖ Obligations for which principal and interest are guaranteed by the US Government
 - ❖ Instruments of US Government agencies such as the Federal Home Loan Bank or the Federal Farm Credit Bank
 - ❖ Mutual funds that invest solely in the US Treasury obligations
 - ❖ Short-term securities that are fully insured or guaranteed by the US Government

Weighted Average Maturity of Securities

- The weighted average maturity of all securities held directly by the trustee, a bond, or money market fund:
 - ❖ Must be ten years or less
 - ❖ Except for investments that were previously in the Depreciation Reserve Fund (DRF)
- Proceeds from former DRF investments that are sold or mature must be reinvested such that the investments in the MRF, excluding former DRF investments, have a weighted average maturity of 10 years or less.

Market Value of Investments

- All investments carried at market value
 - ❖ If market value is less than the required amount at fiscal year end per audit:
 - Client has 60 days to bring the fund current by not receiving investment income or, if needed, by making a supplemental contribution
 - ❖ If market value is more than the required amount at fiscal year end per audit, MRF is fully funded at 2 years of debt service coverage, and financial threshold tests are met:
 - Hospital may receive the excess amount.

Requests for MRF Releases/Loans

- All requests for releases or loans shall be presented by the hospital's Account Executive to the HUD Program Management Group (PMG) with an appropriate recommendation
- After evaluation by the PMG, the Account Executive will forward the request for approval and signature to the Director, Office of Insured Health Care Facilities

Priority Watch List

- Consists of hospitals that present danger of default within the next 12 months
 - ❖ Failure to make a mortgage payment by the 15th day of the month in which the payment is due
 - ❖ Serious violations of the Regulatory Agreement that jeopardize the mortgage collateral or the hospital's future ability to service the HUD insured mortgage

Priority Watch List (cont'd)

- Financial criteria requiring immediate assessment of the hospital to determine inclusion on the PWL:
 - ❖ $DSC < 1.10$
 - ❖ $OM < 0$ for more than 2 consecutive years
 - ❖ $OM < -4\%$ in any single year
 - ❖ $CR < 1.00$ and $DCOH < 5$
 - ❖ $A/P > 150$
 - ❖ $A/R > 90$
 - ❖ $DRF < 1.5$ years Debt Service and hospital failing to make required deposits

Hospital Mortgage Servicer

- Roles of the Servicer:
 - ❖ To represent the Mortgagee in carrying out the terms of the FHA Loan Documents. To act as a liaison between the Mortgagor (Hospital), Mortgagee and HUD.
- Servicer Requirements:
 - ❖ Servicer must be a HUD-approved Mortgagee and should have knowledge of the particulars of the deal and the hospital industry

Servicer Responsibilities During Permanent Loan Servicing

1. Collect monthly principal and interest due under the mortgage
2. Collect escrows for Mortgage Insurance Premiums (MIP), Hazard Insurance, and municipal charges (water/sewer/real estate taxes)
3. Make Annual MIP Payments
4. Monitor Hazard Insurance

Servicer Responsibilities During Permanent Loan Servicing (cont'd)

5. Obtain periodic title reports to be sure there are no liens or new encumbrances
6. Monitor UCC filings
 - ❖ To ensure the Mortgagee's lien remains intact
 - ❖ To note when Hospital is leasing or borrowing
 - Servicer should ensure that the Hospital, when leasing or borrowing, is in compliance with the Regulatory Agreement
7. Monitor Letters of Credit (if any)
8. Monitor the MRF and report shortfalls to the Account Executive

Servicer Responsibilities During Permanent Loan Servicing (cont'd)

9. Collect annual, audited financial statements

- ❖ Unlike the nursing home program, these are not filed directly by auditor through REAC system

10. Perform annual physical inspections

- ❖ Hospital program does not use HUD's Physical Assessment on-line system
- ❖ Physical inspection must be submitted in hard-copy format to the AE

Preventing a Default and Insurance Claim

- What to watch for:
 - ❖ Look for signs of problems early on
 - Are payments being made later each month?
 - Are there mechanic's liens on the title reports?
 - Are there staff changes?
 - Have they stopped investing in PP&E?
- Steps to take:
 - ❖ Review periodic financial statements, compare to budget
 - ❖ TALK with the Hospital REGULARLY
 - ❖ TALK with your Account Executive REGULARLY

Preventing a Default and Insurance Claim (cont'd)

- When it looks like a default is imminent:
 - ❖ Look at the "Other Assets." Can they monetize something to stave off a claim?
 - ❖ Property outside the mortgage? AR?
 - ❖ Can the Board solve the problem? Philanthropy?
 - ❖ Will MRF releases hold off a claim until things get better?
 - ❖ As a LAST RESORT, consider the 223(a)(7) Program

Servicer Responsibilities for Late Payments, Defaults, and Claims

- Report late payments through MDDR System AND call Account Executive
- File notice of default, intent to assign on timely basis.
- Take necessary actions on mortgagee side (bond notices, etc.)

****OIHCF knows how to prevent claims. As a Servicer, you MUST work with OIHCF when a loan is taking a turn for the worse.****

Section 223(a)(7)

- Provides mortgage insurance to refinance existing FHA-insured mortgages in the current portfolio. The objective of the program is to improve economic viability by reducing the mortgage interest rate.

Section 241

- Provides mortgage insurance for supplemental loans to finance improvements or additions for FHA-insured properties to keep properties competitive and extend economic life

Council of Experts

- To advise the Director and to assist in the management of troubled hospitals.
- Current membership of three consisting of:
 1. CPA with extensive experience in the healthcare sector, including experience as partner in a national CPA firm.
 2. Physician with extensive experience in the health care sector, including experience as CEO of large hospital system.
 3. Healthcare executive with extensive experience as senior manager of large hospitals and hospital system.

QUESTIONS?

